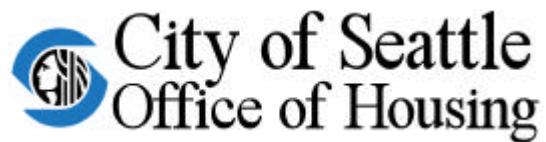


Report on

2004 Homeownership Summit

June 16, 2004



Co-sponsored by:

**Washington Mutual
Fannie Mae**

City of Seattle

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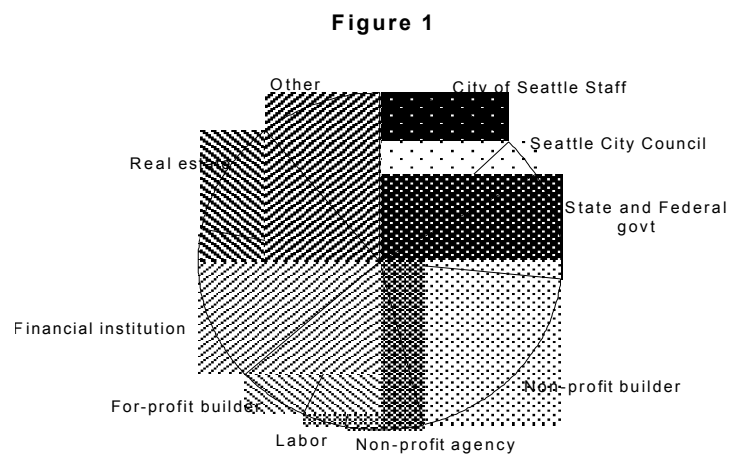
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At the Mayor's request, the City of Seattle Office of Housing convened the 2004 Homeownership Summit with the goal of finding ways to increase the rate of homeownership in Seattle, especially among working and minority families, and making City-sponsored programs more effective at providing homeownership assistance. The rate of homeownership within the city of Seattle lags far behind that of the region as a whole, and has fallen slightly in the past decade. Increasing the rate of homeownership contributes to neighborhood stability and provides long-term economic gain for residents.

The City of Seattle Office of Housing planned and carried out the Summit, with the assistance of a planning committee, consisting of representatives of the City and various stakeholder groups. The Washington State Housing Finance Commission hosted the committee.

In response to the Mayor's invitation, approximately 120 people from the public, private and not-for-profit sectors participated in the summit. Figure 1 shows the approximate breakout of attendance, indicating a balance of backgrounds and interests. This, in turn, provided a diversity of views that contributed to lively discussion and sharing of perspectives.



Opening remarks were provided by Mayor Nickels, Councilmembers McIver and Rasmussen, Heyward Watson from Fannie Mae, Juan Aguilar from Washington Mutual and John Meyers, Regional Director for HUD.

Market Study

After opening remarks, summit participants heard a presentation by Suzanne Britsch, of RealVision Research, of a study of the current state of Seattle's housing market (see executive summary in Appendix D). The study was commissioned specifically for the Summit with the goal of identifying trends in regional and local housing markets and determining what types of new housing would sell in target neighborhoods (Housing Investment Areas). Among the findings of the study were:

- There is a strong unmet demand for new housing for working individuals and families in all three target neighborhoods: Central District, Rainier Valley, Delridge.
- There is a shortage of new-construction for-sale housing in the target neighborhoods.

- The HOPE VI projects will provide affordable ownership opportunities in the next few years, and the challenge facing the city in these areas is what happens after those projects are sold out.
- It is nearly impossible to build new-construction detached housing that is financially viable for families at 80 percent of median income in these areas.
- Product types that would be attractive to various segments of the market in these areas include: large and small lot detached, townhouses, condominiums, cottages, age-restricted housing.
- The target neighborhoods are increasingly attracting singles and childless couples from suburban communities who are looking for the excitement and diversity of city neighborhoods.

The study pointed out the wide range of housing types demanded by various household configurations and ethnic groups, but also noted that these market segments specifically reject certain types. Builders face significant challenges meeting all of these demands on an affordable, infill basis.

Discussion Sessions

Summit participants were divided into five discussion groups, each with a mix of individuals from varying backgrounds. The groups addressed three policy areas:

- Homebuyers – promoting homeownership for working and minority families. This topic covered homebuyer counseling programs offered by a variety of agencies to help prospective buyers understand the process and learn how to prepare to buy a home, and addressing the need for culturally appropriate information to help more minority families become homebuyers.
- Finance – leveraging new and existing programs with City down payment assistance. This topic covered financial assistance programs that provide downpayments and help cover other costs associated with purchasing a home.
- Development – expanding the supply of affordable units and reducing the homeownership gap for minority households. This topic covered supply questions and the range of issues that affect the ability of for-profit and not-for-profit homebuilders to develop housing affordable to first-time homebuyers with modest incomes.

The sessions were moderated by people familiar with housing issues. Participants received short briefing papers on each of the three issues (see Appendix C). The sessions recorded notes on flip charts (see Appendix A for verbatim notes).

A number of key strategies and recommendations emerged from the five groups, many cutting across all three policy areas. These goals fall into three general categories: program principles, program design, housing development.

Homeownership program principles

Aim for long term success. Few day-to-day events are as exciting as handing over keys to a first-time homebuyer. But true success is measured in years: can that new buyer pay for and maintain their house over the long term without undue financial and personal hardship? First time buyers need to learn how to be “owners” as much as “buyers.” Education programs should allow for follow up counseling to ensure first time buyers are making sound financial decisions. Many buyers are trading off a near-term income squeeze for long term equity gains, but this is a risky strategy that requires careful financial counseling and thorough understanding.

Manage expectations. All parties involved – buyers, Realtors, lenders, assistance programs – need to maintain realistic expectations as to what people can afford to buy and maintain. These expectations occur throughout the process. First, what type of housing can the buyer afford? Most people want a detached house on at least a 5,000 square foot lot, but with current prices many buyers may need to begin with something more modest. Second, how much can they spend? Can the buyer sustain payments over the long term? Third, what are the costs of maintaining a home? Can they afford taxes, utilities and maintenance, all of which can rise faster than incomes? While everyone in the process has incentives to sell a home, they all need to be cautious about getting buyers in over their heads and creating a financial situation that is not sustainable.

Demonstrate commitment. Increasing the rate of homeownership will require commitment across the community. State and local governments, as well as financial institutions and granting organizations, need to step up the level of funding for education programs to ensure access and quality. Lenders need to continually refine products that meet the needs of first time buyers. Cities and counties need to change their zoning codes and development regulations to promote construction of market-rate affordable housing. Builders need to move into underserved markets. Communities need to accept new models of housing that provide affordable ownership opportunities.

Homeownership program design

Ensure effective, quality curricula in education and counseling programs. Homebuyer education and counseling programs are offered by many organizations, and the thoroughness and quality varies. Ideal programs should include: (a) language and cultural sensitivity; (b) well-trained staff; (c) enough hours to cover all relevant material; (d) guidance for day-to-day financial management; (e) the most up-to-date information on financial products and services; and (f) sufficient one-on-one counseling time.

Establish creative, efficient outreach efforts. Target audiences for homebuyer assistance programs exist throughout the community, and programs do not have enough funding to reach them all through conventional marketing channels. Increase program delivery with Realtors and bankers, and reach out through other agencies, ESL programs, churches, ethnic organizations and schools.

Reevaluate financial assistance in light of market conditions. Down payment assistance and other financing programs are struggling to keep up with the hot real estate market in the city. The amount of money available is often not enough to close the affordability gap and must be leveraged with other funds. With programs limited to buyers under 80 percent of median income, the number of potential users of assistance shrinks as lower income people cannot afford market prices, even with assistance. And where there are multiple offers on a house, the seller will often prefer the simplest deal, and not have to worry about complex financing deals. Determine how: (a) homebuyer assistance can be appropriately sized and structured to better reach target income levels; (b) ensure program requirements and access are streamlined for easy access and borrower qualification; and (c) increase marketing efforts so new homebuyers are drawn into the market by available assistance.

Provide incentives to meet affordability targets. While housing authorities and non-profits generally provide new-construction housing for the low and very low income, for-profit builders may be willing to produce units for below 80 percent of median income if given meaningful incentives. These can include tax relief and density bonuses in exchange for construction of affordable units. Land trusts or sale of City-owned surplus land on favorable terms can lower land costs or take out the risk of holding land during the entitlement process, allowing builders to concentrate on producing affordable structures.

Increasing housing supply

Allow a wide range of housing types. The majority of zoning in Seattle is concentrated in two housing types: single family detached and large multi-family. The needs for ownership housing identified in the market study cover a wide range of other types which are not currently allowed in significant numbers in the city. Alternative types of housing should aim at (a) affordable ownership; (b) needs of specific demographic groups, especially seniors; (c) higher densities. A number of good examples of these housing types exist throughout the city, but more are needed.

Lower development costs. Developing housing in Seattle can be very expensive, making it difficult for builders to produce affordable units, even in lower-cost neighborhoods. The smaller parcels that make up most of the developable land require flexibility in development codes (e.g. setbacks) to maximize their potential. Parking is a major cost item, and requirements can be reduced for certain target markets and in neighborhoods with good transit service. The City can also lower development costs by simplifying codes and speeding up permitting.

Change the perception of multi-family housing. Although detached housing has moved beyond the financial reach of many first-time buyers, attached housing is still viewed as a significantly inferior alternative. This perception needs to change to expand the range of ownership opportunities. Apartments can be converted to ownership units if they are perceived as a good investment and lifestyle choice. Innovative design and use of space can also improve the desirability of multifamily development for homeownership.

The following priority recommendations from the participants in the Summit have been synthesized from the notes created in the discussion sessions.

Priority Recommendations

Development	Responsibility
<ul style="list-style-type: none"> • <i>Provide incentives to meet affordability targets</i> <ul style="list-style-type: none"> ▪ Use density to increase affordability ▪ Create density in neighborhoods where transit lines connect to the City core ▪ Use the Multifamily Tax Exemption program to encourage more building in urban villages and to zoning allowance ▪ Increase flexibility regarding ground level retail requirements ▪ Proactively monitor zoning yield production to the comprehensive plan, particularly for affordable units 	Office of Housing, DPD, Builders
<ul style="list-style-type: none"> • <i>Allow a wide range of housing types</i> <ul style="list-style-type: none"> ▪ Reduce front yard set back requirements that reduce living space and back yard ▪ Improve lot coverage requirements for more efficient use of space ▪ ▪ Create smaller lot size policy to allow more units in predominantly single-family zones, e.g., 2000 sf, ▪ Galvanize neighborhood support for density 	DPD, Builders

<ul style="list-style-type: none"> • <i>Lower development costs</i> <ul style="list-style-type: none"> ▪ Advocate for reduced builder's liability insurance rates ▪ Decrease parking requirements, such as along transit corridors <ul style="list-style-type: none"> - Give flexibility for buildings providing flex car parking - Allow for shared offsite parking, particularly in mixed-use neighborhoods ▪ Proactively assemble land and secure entitlements for affordable homeownership development ▪ Actively seek feedback from homeownership builders regarding barriers and opportunities to streamline and provide predictability in permitting ▪ Fast track government regulations – see examples from Renton and Tacoma 	DPD, DOT, SPU, builders
<ul style="list-style-type: none"> • <i>Change the perception of multi-family housing as a homeownership option</i> <ul style="list-style-type: none"> ▪ Encourage design that is attractive, sound quality and secure 	Realtors, builders
<ul style="list-style-type: none"> • <i>Create model projects</i> <ul style="list-style-type: none"> ▪ Demonstrate design, neighborhood fit, market acceptance ▪ Aggressively market good examples of affordable homeownership - 	Office of Housing, DPD, builders
Finance	Responsibility
<ul style="list-style-type: none"> • <i>Expand leverage opportunities to fill the gap</i> <ul style="list-style-type: none"> ▪ Develop models for employers to participate in downpayment assistance such as a limited equity investment 	Office of Housing, public funders, lenders
<ul style="list-style-type: none"> • <i>Update programs</i> <ul style="list-style-type: none"> ▪ Increase lending options for rehabilitation programs ▪ Promote interest rate write downs as well as downpayment assistance as a homebuyer assistance tool ▪ Review levy restrictions for effective use of \$ for home 	Office of Housing, public funders, lenders

<p>ownership and use \$ for increasing counseling services, marketing and land trusts.</p> <ul style="list-style-type: none"> ▪ Improve and expand the location-efficient mortgage program 	
<ul style="list-style-type: none"> • <i>Establish creative outreach efforts regarding finance programs and homebuyer education services</i> <ul style="list-style-type: none"> ▪ Market to churches, minority associations, ESL classes, language-specific newspaper/radio and media ▪ Expand points of entry into the programs – work more with mortgage lenders ▪ Market Seattle as a great place to live 	<p>Lenders, Realtors, public funders, homebuyer education and counseling agencies</p>
Homebuyer Education and Counseling	Responsibility
<ul style="list-style-type: none"> • <i>Create long term success for homebuyers</i> <ul style="list-style-type: none"> ▪ Manage expectations – continuum ladder of homeownership ▪ Give perspective regarding what can be purchased at price points ▪ Long-term education regarding wealth building, start at schools 	<p>Lenders, Realtors, public funders, homebuyer education and counseling agencies</p>
<ul style="list-style-type: none"> • <i>Ensure effective, quality programs</i> <ul style="list-style-type: none"> ▪ Ensure language and culturally relevant materials and instructors are available ▪ Compensate nonprofit counseling agencies when they deliver qualified homebuyers – look at HomeChoice and BofA models ▪ Funders require consistent benchmarks for education and counseling 	<p>Lenders, Realtors, public funders, homebuyer education and counseling agencies</p>
<ul style="list-style-type: none"> • <i>Build strong referral relationships</i> <ul style="list-style-type: none"> ▪ Create a system of trust for mortgage lenders, Realtors and nonprofit agencies to help each other's clients. 	<p>Lenders, Realtors, public funders, homebuyer education and counseling agencies</p>

Summary

In order to increase the homeownership rate in Seattle, more units need to be built. Some of the issues addressed here will influence the ability of affordable development to move forward. In addition there needs to be more access to financing assistance and the system for providing homebuyer education, counseling, and financial literacy needs to be better linked with homebuying service providers and funding resources. While none of these efforts and improvements can make the difference on their own, combined together they can have a cumulative impact on expanding the supply of affordable units and reducing the homeownership gap for minority households.

Next Steps

The City is the appropriate lead on many of these recommendations, and the skills and resources of many private, nonprofit and other public sector entities will be needed to successfully implement them. To foster contributions from key stakeholders and to assess progress in towards meeting achieving the recommendations, it is suggested that the City periodically convene three advisory committees:

Office of Housing Homebuyer Assistance Program Advisory Committee. This standing committee will provide guidance to the Office of Housing and encourage collaborations with the City's Homebuyer Assistance Programs.

Homebuyer Education and Counseling Advisory Committee.
Convened by Fannie Mae, HUD and the WSHFC addressing issues related to homebuyer education and counseling services.

Development Advisory Committee. Generate recommendations to increase the supply of affordable ownership housing in Seattle. Staffed by The Housing Partnership and City staff, it will report back with priority recommendations to the Department of Planning and Development by mid 2005.

These advisory committees will be made up of Summit participants as well as other individuals with interest and expertise. The Office of Housing will prepare a report annually on homeownership that will summarize results of these recommendations and describe actions and resources committed to increasing homeownership in Seattle.

Appendices

- A. Verbatim notes from discussion group flip charts
- B. Summit invitation letter, agenda and attendance list
- C. Briefing papers for discussion groups
 - Creating New Homebuyers Issues
 - Mortgage Financing Issues
 - Housing Supply and Development Issues
- D. Demographic and housing study – RealVision Research, Inc.

Appendix A

Verbatim Flip Chart Notes

Fuchsia Group

Counseling

Borrowers who are turned down for loan should be referred to counseling agencies. Agency could agree to refer back to original lender – build relationship

Realtors and mortgage brokers doing counseling.

Concern that they don't know enough – should refer to counselors or become counselors

Need more financial education in High school and through churches, especially when families don't own homes.

Brokers not explaining terms, such as prepayment penalties.

Special requirements of attached housing

Buyer expectations: What you can afford

What you must have

Shopping for a loan

Measure of success is keeping people in housing

Lenders/brokers put buyers in loans they cannot afford. For example, high default rate with 80-20 adjustable rate loans.

Rates creeping up – gross income

Buyers with 20 percent down payment – especially immigrant families, still need help to understand loan terms

IDHA/El Centro developing consistent curriculum – Five hours plus predatory lending.

Need incentives for borrowers to take education classes.

Need consistent education material in a variety of languages.

Finance

Concerns about downpayment assistance:

Dollars only serve a small number of buyers

Can't serve the 80% to 120% market. What's the tool for them?

Will be harder to use as rates rise.

City down payment assistance: \$45,000 may not be enough – requires layering

Requires intensive counseling – no funding for this

Problem finding affordable units

Focus instead on creating affordable units.

Not needed because private lenders provide loans with minimum down payment required

Getting city subsidy is too slow. Prices going up.

Comments favoring City downpayment assistance:

Need education so buyers don't take bad loans.

If houses are not affordable then down payment assistance is important.

Households at 60%/median income and below need \$70,000 to \$90,000 subsidy

Development

Zoning:

Parking Too much required close to transit

Affordability: Keep some proportion of units affordable over long term

Formula needs to balance with households need/desire for equity growth

Must be subsidized below market price

Lack of L1, L2, L3 zoned land

Overlays, open space, etc. make it difficult to achieve density. Need to simplify

Need outright zoning – overcome community opposition

Example: West Seattle urban village zoning – three units on one lot. Selling!

Need neighborhood acceptance

Delridge – good opportunity to increase single family zoning

Need design review – good looking houses, higher quality construction, setbacks

Sound proofing

Community open space – safe

Tie increased density to affordability – density bonus incentives

Attached:

Need to market attached – give people a picture.

Long term view – develop demand

Expand options by providing attached housing choices

Townhouses sell well – just not to families with kids

Need market research – do buyers want more yard (pets)? large open living room?

Appeal to range of buyers – different needs

Let buyers choose what they want to pay for (fireplace, etc)

Attached housing is inevitable – builders must move into this market

Code requirements can reduce appeal of homes– e.g. front yard setbacks reduce living space and back yard.

Need flexibility

Impediments other than land:

Problem of uncertainty – anticipate demand and costs 6-12 months out

Need flexibility for design

Certainty re: permit process

Incentives such as City's multi-family tax exemption program

Need model projects – laboratory. Demonstrate design, neighborhood fit, market acceptance.

Incentive zoning:

Increased density will not completely pay for affordability – must be combined with other subsidy.

Problem of environmental remediation – expensive

Legal environment – especially condominium liability – insurance same price as land

Blue Group

Education

Credit counseling – additional resources:

Spread the word about what's available

Programs within institutions – lenders and non-profits

Ensure that funding goes to the most appropriate target markets

General:

Widespread awareness to public about where to start

Efficient communication – identify touch points

Realtor Association – ensure education of members

Mortgage Finance

Rehab/renovation – need more lending options

Affordability – prices too high even with down payment assistance

Expand points of entry – more lenders to work with city money, other assistance

Streamline/integrate requirements of funding sources

Equal competition for assisted buyer vs. vanilla buyer

Minimize the strings attached.

Supply Issues

Redevelop to increase land supply

Fund an agency to acquire land and make available to builders – in charge of entitlements

High level recognition of need for increased density

Create housing for single parents

Density done well: good for builders and good for buyers

Flexibility in zoning to allow creativity

Communicate to elected officials – need citizen-based grass roots effort

Green Group

Homebuyers -- Summary

Revisit and update education

Include money management

Acknowledge funding needed to education and support low income Homebuyers

Tailor education to cultural milieu of different immigrant populations (through ESL?)

Homebuyers -- Notes

Education and counseling:

- Revisit benchmark curriculum

- What do low and moderate people need to know – some missing pieces

- Area being missed: how to sustain – high foreclosure

- Teach people how to save and manage money – banks short sell – lose housing and ability to own

- Address in information about foreclosure

- Homeowner education. Beyond homebuyer education – an ongoing program

- Lending process and products have changed – update education

- Keep it simple – pay mortgage first; pay your bills.

- Teach what happens if you can't keep up.

- Some being pushed to buy more than they can afford.

- Education/counseling was reduced to five hours (from 12 hours).

- Focus on what people are able to afford.

- Education – provide a neutral ground

- Need more than five hours – how to manage money.

- Class required for people who want to access grants (WSHFC)

- Costs to educate and support low income Homebuyers

Five hour class has been a marketing tool for lenders – promoting home buying through them.

Housing levy – no money for education.

Education – include how to shop for a lender and realtor

Non-profits – focus on immigrant populations

Realtors – committed to more access to affordable housing

How will there be housing available for people below 80 percent median

Disconnect – want homeownership but too expensive.

Highline – ESL for Somalis – for parents

ID those with language needs – use ESL to include home ownership

Finance – Summary

Big Picture – focus on ongoing costs of homeownership

Look at financing tools aimed at lowering interest rates and or down payment

How to deal with rising taxes and insurance – income doesn't keep up

Community land trust – one model to explore

Finance – Notes

Limited partnership – employer sponsored loan subsidy on down payment – payback component

Community land trust – tested model. Lenders trust this tool. Existing homes or new.

Remains affordable for future buyer – ground lease, own home. Serve 80 percent/median. Can go down as far as 40 percent/median.

Big Picture. Need to focus on ongoing costs of home ownership. Work on those costs to get them down.

Home ownership not for everyone. House, condo ownership. Rentals

Need to consider other factors that influence choices (schools)

Lenders. Money in down [ayment or write down interest? Interest rate write down an additional tool works with lower costs.

Ongoing costs. Taxes and insurance . Have equity but income hasn't caught up.

City program that works – property tax exemption – use for homeownership

Deferred purchase assistance.

Habitat – extensive classes – maintaining home and saving money on utilities.

Development – Summary

Changing population and needs

Find ways to allow more flexible reuse.

Incentives for meeting zoning envelop – get intended density.

No silver bullet – but a variety of tools. Condo conversion, mutual housing, zoning code.

Development – Notes

Affordable housing the goal.

Market is singles/couples without children

Convert apartments to condos – key tool to creating home ownership

Be attentive to market characteristics (seniors – one level)

Lend money to developers to do conversion – pay city back at time of sale

Concern about condo conversion – quality/”quick buck” issues

Conversions – caution. A lot of poorly constructed apartment buildings

Is there a market for owning an “apartment” type home?

Models like mutual housing to get renters more involved.

Subsidy – homeowners also get subsidies

Zoning code – changes being made (response to Chamber recommendations)

Increasing density – e.g. Capitol Hill/Broadway – to allow more housing. Parking is a key issue.

Barriers to redevelopment on some lots (proportion issue with skinny houses.

Acknowledge effect of demand – driving up housing prices. Migration and immigration.

Effect of urban growth boundary. ESA further restricts developable land.

Need enough parcels to develop on in the city – loosen up on reuse.

Land value taxation – tax land, not buildings. Creates incentive to redevelop. Less attractive to hold onto land.

Incentives to develop to the allowable zoning.

Red Group

Homebuyers

Provide targeted outreach

Increase funding for pre and post home purchasing counseling services

Create standardized/consistent curriculum for home buying and home ownership education across the state

Educate/market to public about other options besides detached single family dwellings

Provide finance, credit management, home ownership etc. info early – in high schools, junior achievement, other venues to teach young people

Engage employers to leverage levy \$ for down payment assistance

Finance

Broaden target audience for KCHA and SHA section 8 home ownership programs to include all section 8 voucher holders

Review levy restrictions for effective use of \$ for home ownership and use \$ for increasing counseling services, marketing, land trusts

Examine rehab/1st time buyer loans to be incentives

Development

Fast track government regulations and create easier permitting process (e.g., Renton)

Change zoning codes - allow for home-based businesses to increase families' income, reflect "one size doesn't fit all"

Decrease parking requirements, especially along transportation corridors

(it will decrease construction costs and increase the number of possible units)

Provide tax deductions and other incentives to enable owners to transform vacant buildings

Create smaller lot size policy, e.g., 2000 sf and galvanize neighborhood support for density

Advocate for reduced builder's liability insurance – exorbitant rates prohibit affordable housing

Other:

Look at larger livability issues in community, e.g., quality schools

Study successful approaches elsewhere